

# Overview of Vermont's Unemployment Trust Fund Challenge

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## Purpose of Unemployment Insurance

- To provide partial wage replacement to workers who find themselves out of work.
- To provide economic stability for a community when major unemployment occurs.
- To encourage workers to remain in the community and to be available for work recalls by employers.

# Unemployment Insurance Laws

- Unemployment Insurance is governed by a mixture of State & Federal Law
- Title III of the Social Security Act and the Federal Unemployment Tax Act (FUTA) establish the basic parameters and standards.
- States have some flexibility in establishing tax structures, determining claimant eligibility, and defining benefit levels.

## Financing Unemployment Insurance

- A federal tax (FUTA) is paid on the first \$7,000 of wages paid to each employee.
  - This pays for the administration of the program at both the federal and state level.
- In Vermont, a state tax (SUTA) is paid on the first \$8,000 in wages paid to each employee.
  - 2009 Special Session increased taxable wage base to \$10,000 effective January 1, 2010
  - This money is deposited in an account in the US Treasury and can only be used to pay unemployment benefits.

# State Tax Rates

- Two factors determine an employer's Vermont SUTA rate:
  - A ratio (experience rating) is calculated each year that reflects the benefits charged to the employer's account in relationship to wages paid by the employer. The experience rating is used to allocate the cost among employers.
  - The current value of Vermont's UI trust fund reserves determines which of 5 possible tax schedules shall be applied for the next year.

## Some employers are self-insured:

- Government & non-profit (IRC 501(c)) entities may elect to reimburse VDOL the cost of benefits paid their workers.
- If they elect to reimburse, they do not pay quarterly taxes into the fund and are not relieved of any benefit cost.
- They do not pay any of the administrative costs.

## Federal Unemployment Tax

- The federal tax is 6.2% of the first \$7,000 of each employee's wages, but:
- The rate is reduced to 0.8% if:
  - The state's law conforms to federal requirements,
  - The state has not gotten advances from the federal trust fund accounts within the last 2 years, and
  - The employer has paid all state UI taxes.
    - The rate increases if VT borrows for two or more years.

# Eligibility for Benefits

- First, is the claimant monetarily eligible for benefits? Based on wages earned while working.
- Second, are the circumstances of their unemployment “qualifying?”
  - The worker is laid off due to lack of work or quit with good cause attributable to the employer.

The worker must be able and available for work. Generally to demonstrate the worker is able & available:

- Must make 3 job contacts a week
- Must be willing to accept a job offer.



## Eligibility for Benefits

- Benefits are delayed if:
  - The worker was fired for misconduct
    - substantial disregard of an employer's interest
  - The worker quit because a health condition prevents the worker from doing the specific job but can do other work.

## Eligibility for Benefits

- Benefits are disqualified if:
  - The worker was fired for gross misconduct
    - Examples: theft or violence at the workplace
  - The worker quit without good cause attributable to the employer.

## Weekly Benefits

- The weekly benefit is calculated by dividing the two highest quarters' wages by 45 up to a maximum of \$425.
  - 2009 Special Session, froze maximum amount at \$425 until June 30, 2010.
  - The maximum amount is adjusted upward each year at the same rate as the average wage of all workers.
- The worker's total benefit during a benefit year is 26 times the weekly benefit amount.

## Current Status of UI Program

Week ending 11/14/09

- Trust Fund Balance \$42M
  - Down from \$129M January 2009

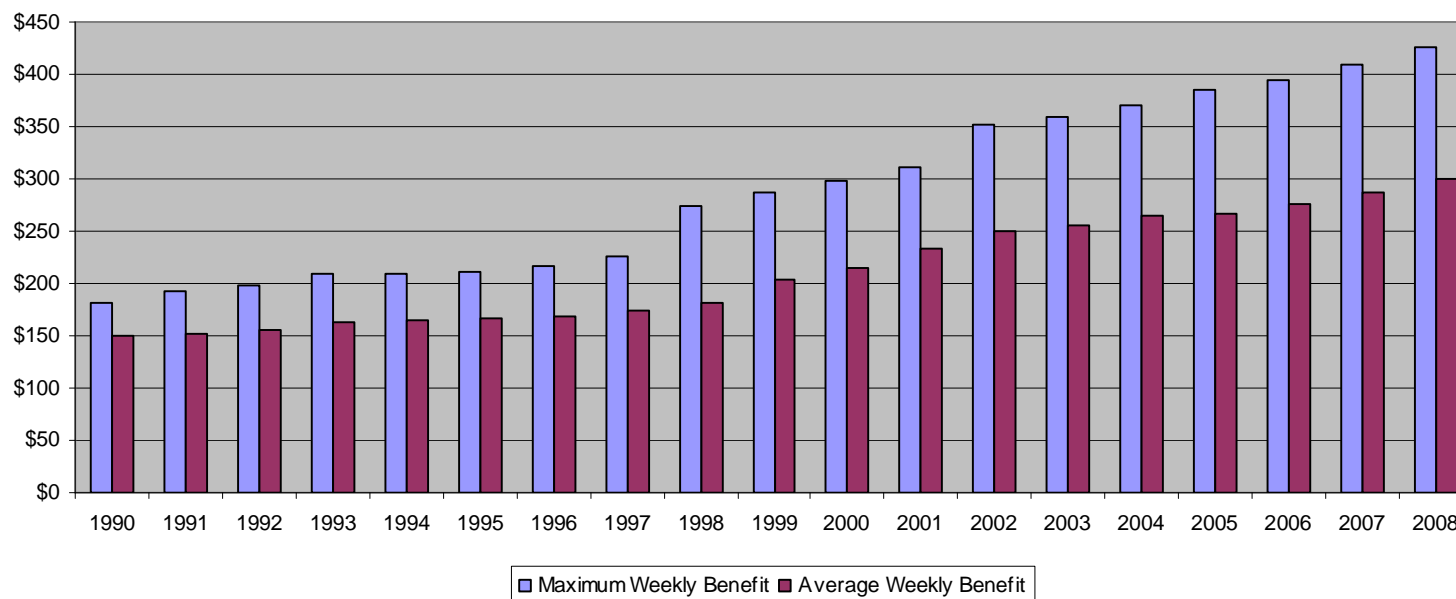
2<sup>st</sup> Quarter CY 2009 (USDOL)

- Tax Rate – Average effective tax rate 0.73% ranks 18<sup>th</sup> nationally
- Trust Fund as a percent of wages .93% ranks 19<sup>rd</sup> nationally
  - Down from 2.01 % ranked 13<sup>th</sup> nationally 2<sup>nd</sup> Qtr CY08

## Why is the fund in trouble?

- By current Vermont law, benefit payments increase each year indexed to the rise in average wages. Two increases above COLA in 1998 and 2002.

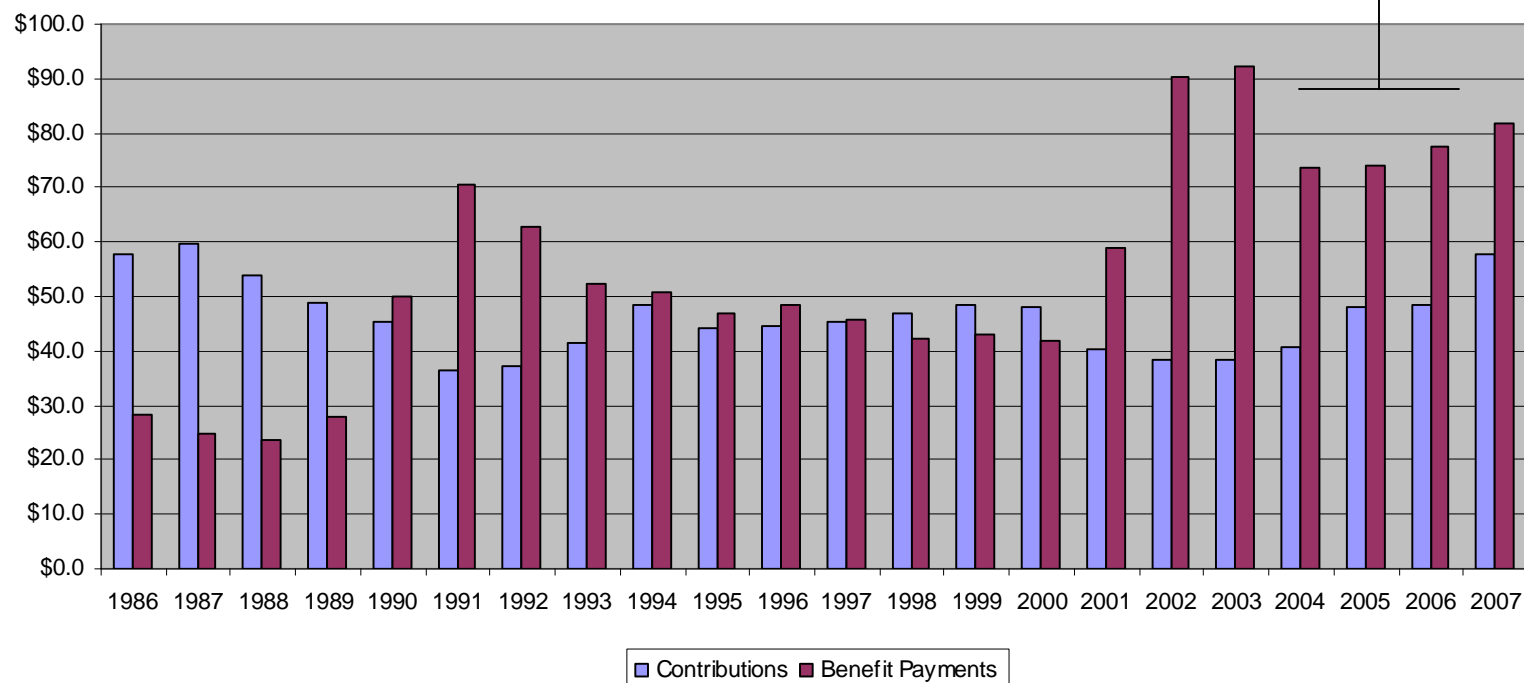
Weekly Benefits



# Revenue increased but not enough

Note that benefits outstrip contributions even in relatively good economic times.

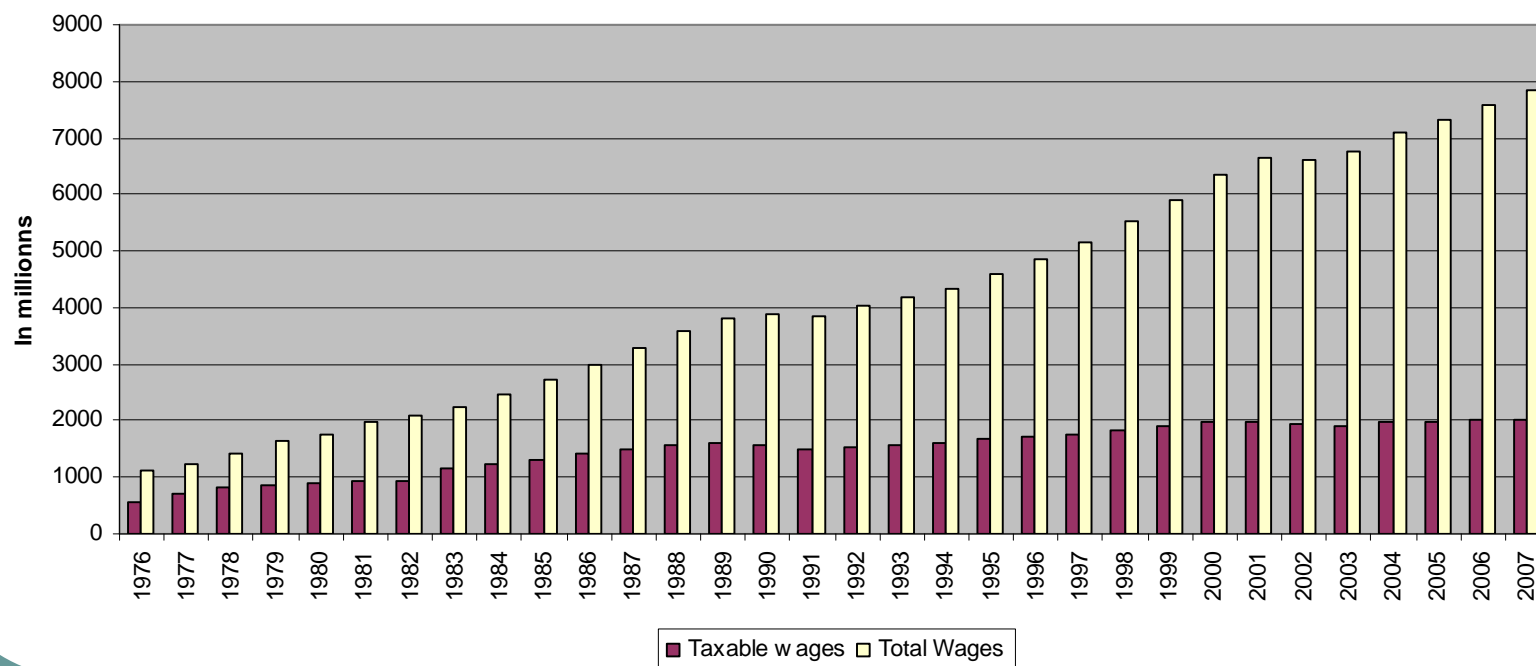
**UI Benefits & Contributions**



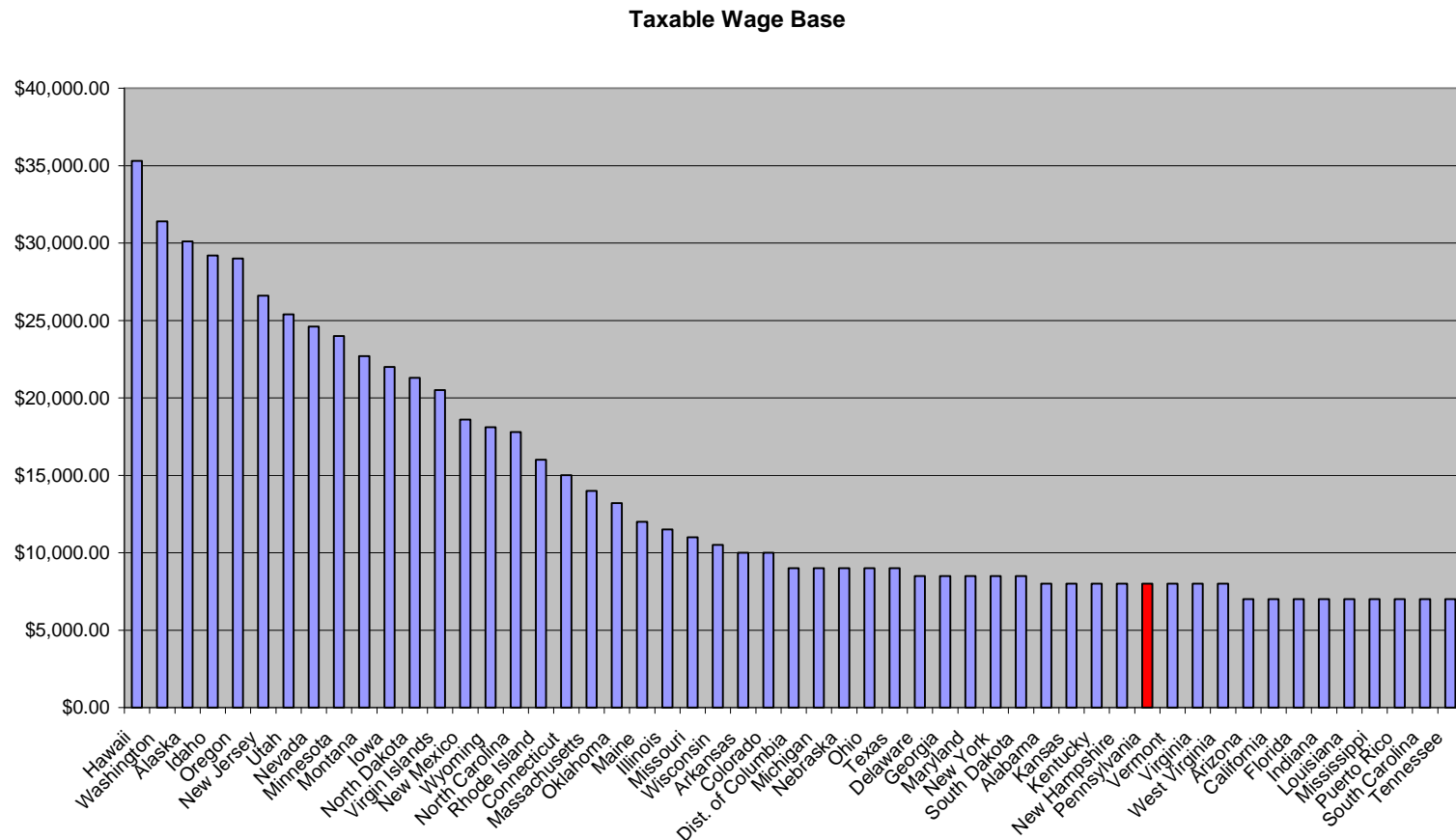
# Taxable wages have remained stable

By Vermont law, UI taxes are charged against the first \$8,000 (will increase to \$10,000 01/01/10) of an employee's wages

**Tax Paying Employers- All Wages and Taxable Wages**



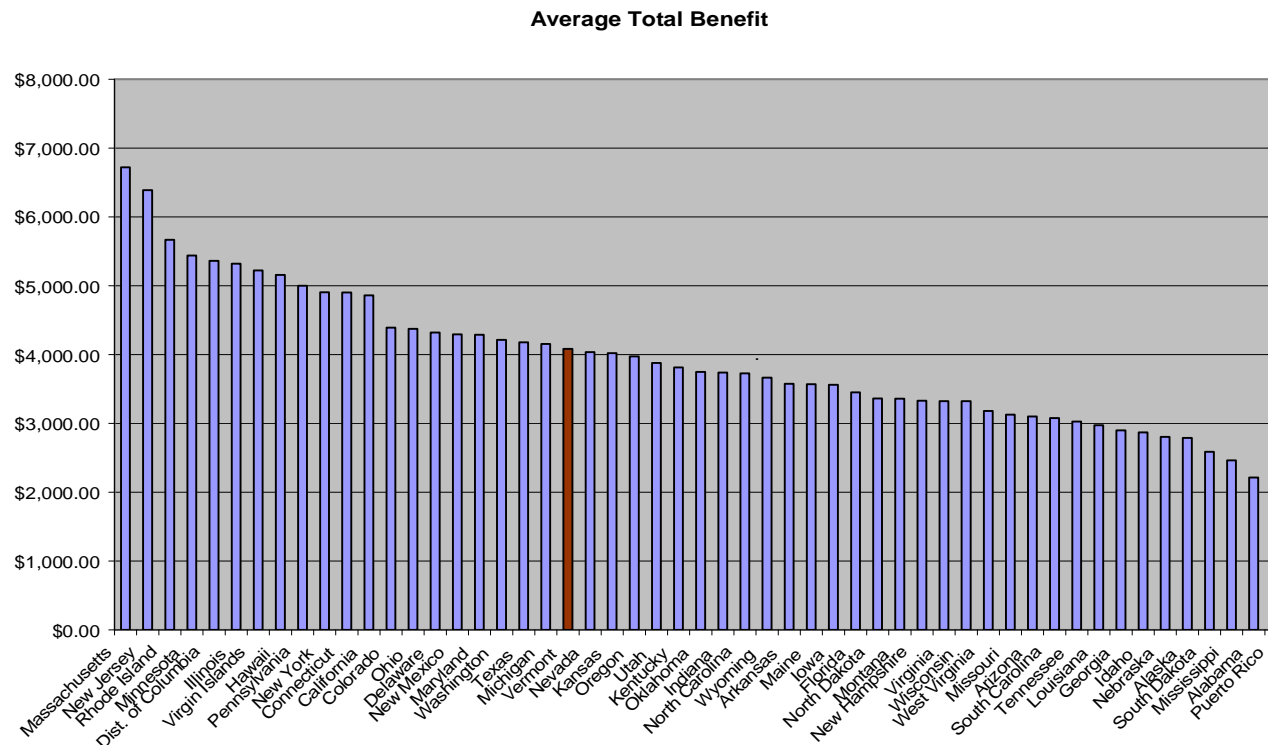
# Taxable wage base ranks low nationally.





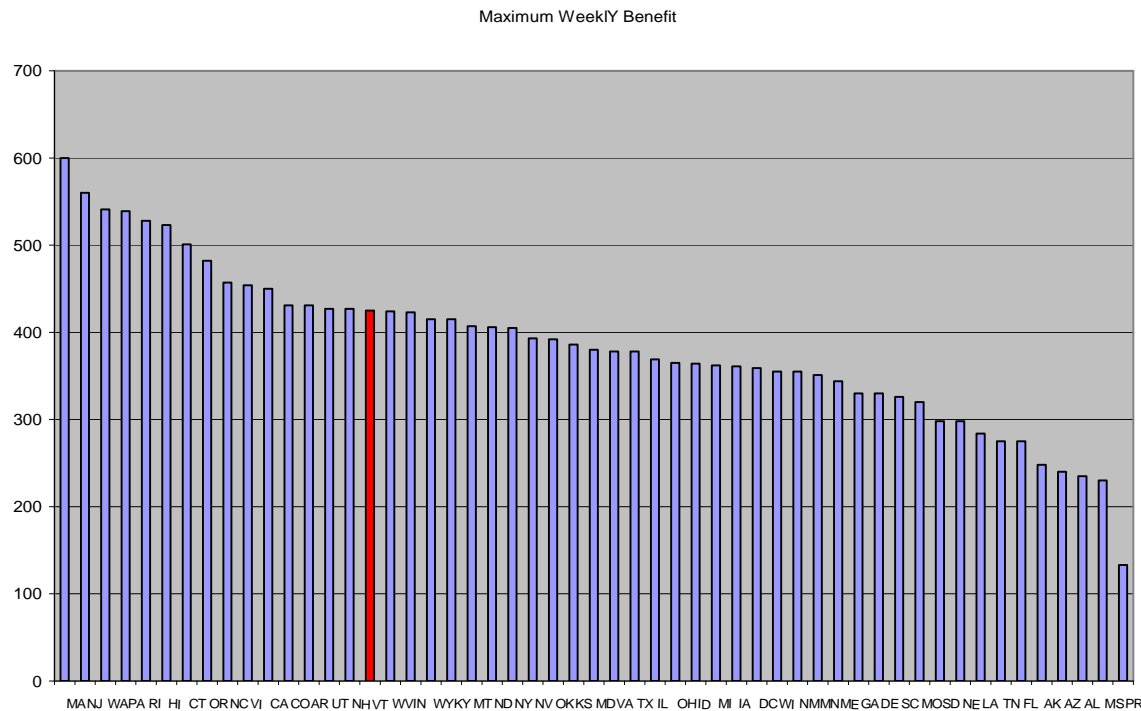
# Average total benefits

- Compared to the nation, Vermont offers relatively high benefits. 21<sup>st</sup> in the nation



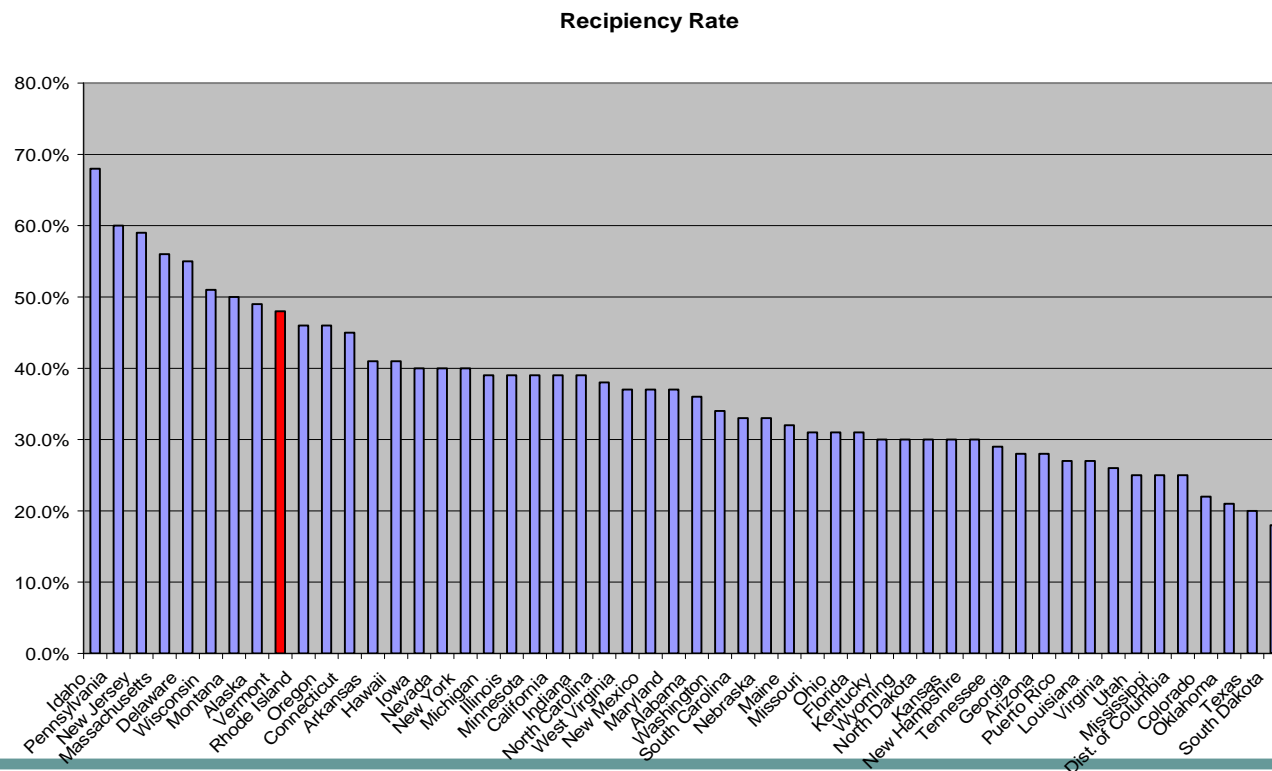
# Maximum weekly benefit

*VT ranks 16<sup>th</sup> in the nation at \$425 per week, maximum weekly benefit*



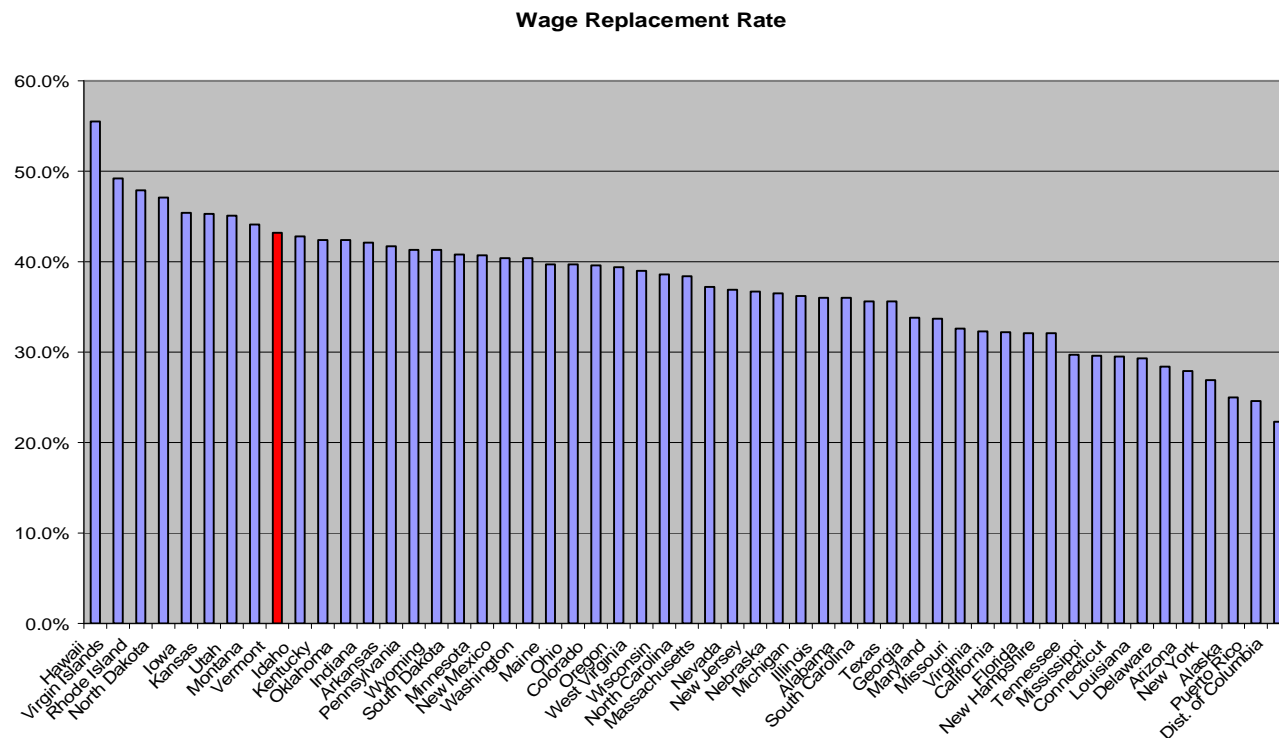
# Reciprocity rate

- In Vermont a higher percentage of the unemployed receive benefits than in most states. 9<sup>th</sup> in the nation.*



# Wage replacement rate

- *Vermont replaces more of a worker's wages than most states. 9<sup>th</sup> in the nation.*



## How Vermont ranks nationally

- Maximum benefit - \$425, 16th highest (23<sup>rd</sup> highest when factoring in dependent allowance)
- Average benefit as % average wage – 42%, rank 12<sup>th</sup>
- Average benefit- \$312, rank 20<sup>th</sup>
- Reciprocity rate - 49%, rank 9<sup>th</sup>
- Benefit exhaustion rate – 25%, rank 52<sup>nd</sup>
- Average duration – 15 weeks, rank 30<sup>th</sup>

Source: USDOL UI Data Summary 1<sup>st</sup> Quarter CY 2009

## Consequences Of Doing Nothing

### Vermont's UI Trust Fund will Bankrupt by Early 2010

- If not addressed, we will need to borrow over \$300M by 2013.
- Expected borrowing at the end of 2010 will exceed \$110 million.
- Interest must be paid from a non UI source.
- Under existing law, maximum benefit would not increase once VT borrows money.
- Employers FUTA taxes increase by 0.3% annually and cumulative starting in late 2011 or early 2012.

## Goals driving our proposal:

- Return the TF to solvency before the next recession.
  - Solvency defined as \$300 million +.
  - To avoid falling back in to debt.
- Avoid large tax increases during the recession.
  - Keep the TWB as low as possible.
- Minimize borrowing:
  - To minimize interest expenses.
  - To minimize increased FUTA tax increases.
- Maintain benefits at or above national averages.
- Address issues of negative balance employers.
- Address seasonal issues.

## What is the solution?

- Governor Douglas has proposed a balanced approach to raise income and cut expenses.
- Income: Phased in increases to the Taxable Wage base over four years up to \$18,000.
- Expenses: Benefit adjustments to bring us closer to the national average.



## Changes on the income side:

- Generates \$84 million more to the TF over the next four years:
- Phased in increases to the taxable wage base over the next four years up to \$18,000.
- Require better response to separation requests for information from employers.
- Charge a fee to reimbursable employers to help the fund balance.
- Add a trigger to lower TWB if the fund grows too fast.
- Index TWB to changes in benefits.

## Changes on the expense side:

- Totals approx. \$77 million in savings over the next four years. (a portion due to a drop in UR):
- Add back a one week waiting period for benefits.
- Reduce the maximum weekly benefit from \$425 to \$400.
- Modify the weekly benefit amount to reflect 4 quarters of wages vs. current 2.
- Disqualify a person fired for misconduct vs. the current delay.
- Increase the penalty if fired for gross misconduct.
- Reduce to two the methods of determining eligibility vs. the current three.
- Reduce the part time earnings disregard to 20% vs. the current 30%.
- Remove the option to enable collecting UI and severance pay simultaneously.
- Order repayment of erroneously awarded benefits.

## Outcomes of the proposal:

- ☑ This proposal projects the trust fund will return to a positive balance by 2015.
- ☑ The fund balance will be over \$200 million by 2018 and on the way to solvency of \$330 million.
- ☑ The tax increases are phased in over a four year period.
- ☑ Borrowing is limited to 5 years. Max borrowing \$170 million.
- ☑ FUTA tax increases are limited to 4 years. Up to 2%.
- ☑ Addresses the seasonal worker and negative balance employers.
- ☑ Benefits are at or above the national averages.
- ☑ Indexing helps assure we will remain solvent.

## Sample of impacts: Large, seasonal business.

	2008	2010 <sub>(TWB \$10K)</sub>	2013 <sub>(TWB \$18K)</sub>
Total Wages	\$12,100,000	\$12,136,300	\$12,245,855
Taxable Wages	\$5,700,000	\$5,822,000	\$8,270,000
Tax Rate	6.9%	7.6%	7.6%
State Tax	\$393,300	\$442,472	\$628,520
FUTA Rate	.8%	.8%	1.7%
FUTA	\$39,900	\$32,603	\$54.830
Total	\$433,200	\$475,075	\$683,350

## Sample contd.:

- \$48,400 for each \$1000 increase in the Taxable Wage Base.
- \$7,110 for each 0.1% increase in the tax rate.

## Options the Legislative study committee is examining:

- A surcharge on employers to pay interest.
- A tax on employees to pay interest.
- Minimal benefit reductions.
- Increasing TWB to \$21,200 over 9 years.
  - Increases taxes on employers by \$111 million.
- This would result in:
  - Borrowing for 7 years. Up to \$256 million.
  - 6 years of tax credit losses: up to a FUTA tax rate of 2.6%.
  - TF does not return to the black until 2017.
  - The TF reaches only \$78 million by 2018.

## For more information:

- [www.labor.vermont.gov](http://www.labor.vermont.gov)
  - Click on “UI Trust Fund”, last bullet under “news” in the right hand column.
- UI Legislative Study Committee dates and times:
  - [www.leg.state.vt.us/schedule/schedule2.cfm](http://www.leg.state.vt.us/schedule/schedule2.cfm)